ROCKERS
ROCKville Employees Retirement System

Board Meeting
February 15, 2013

PRESENT: Jack Rodgers, Chairperson; Mark Pierzchala, Councilmember; Gregory Hazlett, Citizen Representative; Barb Matthews, City Manager;; Cpl. Chris Peck, FOP Representative ; Anita McCombs, AAME Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisy Harley, Human Resources; Tim Peifer, Finance Department; Craig Graby, Hay Group; as well as Ryen Sherman, and Tanya Laytin, Segal Rogerscasey, Inc.

ABSENT: Kyle France, Union Representative.

The meeting commenced at 10:00 a.m. with introductions.

Mr. Cohen reported on the correspondence. He stated that the duplicate payments made by Prudential to terminated plan participants have been resolved and the plan was whole as of December 24, 2012, pending formal release by Principal of $16,000. Mr. Cohen explained that Principal and Prudential shared in the responsibility for the erroneous double-payments of terminated, non-vested participants.

Mr. Cohen informed the Board that the Mayor and Council had approve the change of the plan reporting year.

Mr. Cohen said that the Board can discuss if they want to put the subject of whether to raise the limits of liability insurance coverage for Board members on a future agenda. Mr. Rodgers wants to know how a Board Member can be exempt from being personally libel. Mr. Cohen said the City Attorney will be with the Board at a future meeting to address this issue. Mr. Pierzchala feels the Board should have a separate policy not diluted by other coverage. Mr. Rodgers wants a full consideration on the agenda for the next meeting.

Mr. Cohen informed the Board that Mr. Reese is no longer with the Hay Group and Mr. Graby is his replacement.

I. Approval of Minutes November 16, 2012:

Mr. Hazlett moved to approve the minutes and Cpl. Peck seconded it. All were in favor.

II. Investment Performance Review 4th Quarter End December 31, 2012 Pension and Thrift Plan:

Mr. Sherman reviewed the fourth quarter performance reports for each Plan. He stated that the Pension Plan returned 2.7% for the quarter and 13.1% for the year, versus the policy index returns of 2.2% and 12.4% respectively. He and Ms. Laytin presented a January update; the total fund returned approximately 2.3% for January. It was noted that in the future the Plan will receive its annual contribution from the City at the beginning of the year, to allow the money to be invested for the full year. Segal is moving the Manning and Napier fund to a separate account at Prudential, custodied by US Bank, at the end of February. The move will save the Plan about $20,000 per year in fees, as well as about $5,000 per year on their Manning and Napier separate account on the Retiree Benefit Trust. In addition, Segal successfully negotiated a lower fee with Principal on the assets held by Principal, which will equate to annual savings of approximately $50,000 per year.

Segal then reviewed the Thrift Plan. Mr. Sherman stated that Goal Maker participation is at 25.2%, the highest it has been since the program started. The Board expressed that they would like to raise participation rates and will further discuss ways to do so at the next meeting. The Board would like to see the distribution of participants in each of the Goal Maker funds, and want to know why the funds do not include any Real Estate or Emerging Markets mandates. Segal will invite Prudential to make a presentation at the next meeting.

Councilmember Pierzchala made a motion to accept both the Pension Fund and the Thrift Plan Fund reports as presented. Mr. Hazlett seconded it. All were in favor.

III. Investment Policy – Asset Allocation Discussion:

Next Segal discussed the Asset Allocation study for the Pension Plan. They presented a few different scenarios, including the Model Portfolio. Mr. Sherman noted not all of the asset classes, e.g. Infrastructure and Private Equity, would make sense for this plan because of the Plan size and due to their unique liquidity structure. He stated it is important to keep in mind the $25 million minimum buffer they must keep with Principal for the Benefit Index. Segal presented four other asset class mixes, each with one scenario that provides a higher return at the same level of risk and one that provides the same return at a lower level of risk. Segal recommended the Diversified Portfolio, which adds High Yield Bonds, Emerging Market Debt, Emerging Markets Equity, Hedge Funds, and Commodities. The Board is not completely comfortable with all the asset classes yet. They would like Segal to present an educational piece on Hedge Funds at the next meeting. Once adopted, the new asset classes will be implemented in steps over a specified time period. The Board would like to see Principal International's holdings in the next report, so they can gauge now much Emerging Markets exposure they have through that strategy.

There is a possibility that the Defined Benefit Plan will be partially or fully frozen, which could change the Board's asset allocation strategy. The actuary presented his preliminary study at the meeting. The Mayor and Council will be making a decision on that, most likely before the next meeting.

Lunch 12:10- 12:30

IV. RB Trust Investment Performance Review 4th Quarter End December 31, 2012:

Mr. Cohen presented this report. Presently Segal is not overlooking this. Right now there is only one fund manager, Manning and Napier. At some point the Board should have a discussion regarding diversification. He stated that RB Trust performance relative to the benchmarks for this quarter was good and there are no real issues. He said that this is the first year the trust is reimbursing the City for the retiree health costs. Mr. Rodgers requested the funding status of the Plan and a more current report. It is required that a report be done on health benefits every other year. He said the funded status is much better than many others because the City makes contributions every year and the contributions are building towards 100% of what the Actuary recommends.

Mr. Pierzchala made a motion to accept the report as presented. Mr. Hazlett seconded it. All were in favor.

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V. Pension Plan Design Study:

Mr. Graby from the Hay Group presented the highlights of this report. He explained that the City has engaged the Hay Group to provide an analysis of its retirement program, including a comparison of the City's retirement program to retirement programs in surrounding governmental jurisdictions, and an analysis of various options available to the Mayor and Council in order for the City to provide a fair retirement for its employees, in the context of what other governmental units provide and the affordability, both in the short-term and the long-term of such benefits. The Hay Groups analysis also must be sensitive to the retirement needs of the City's employees and to the treatment of various groups of employees. This version of the report is a working draft. The executive summary will be expanded based upon discussions with the Retirement Board and will reflect any changes that the Board may request. The report will be completed for the Mayor and Council meeting on March 18.

Mr. Graby started by explaining that the City retained the Hay Group to do the following:

- provide data on retirement plan designs offered to new hires by a representative survey of governmental employers;
- prepare projections for the normal cost of the current Defined Benefit Plan continuing unchanged and compare those to the normal cost projections of: (a) a hybrid plan for future accruals, (b) closing the Defined Benefit Plan to the new hires, with new hires participating only in a Defined Contribution Plan, and (c) freezing the Defined Benefit Plan and providing only a defined contribution plan to all member and;
- prepare illustrative income replacement at retirement examples for typical categories of employees at retirement.

As well as the above analysis, the Hay Group was requested to provide 20-year normal cost projections under the following scenarios:

- retaining the current Defined Benefit Plan and Defined Contribution Plan arrangement for Administrative employees and Defined Benefit Plan for only current Police employees;
- a hybrid arrangement with both a Defined Benefit Plan and a Defined Contribution Plan component for both Administrative and Police employees;
- closing the current Defined Benefit Plan to new hires and providing new hires with only a Defined Contribution Plan;
- freezing the Defined Benefit Plan and providing all City employees with benefits through a Defined Contribution Plan.

The Hay Group was also requested to provide income replacement ratios for a variety of employees under the current plan and the three alternative plan designs listed above.

The City made changes to the plans for Administrative employees around 1986 that moved the Plan from exclusively Defined Benefit to a combination of Defined Benefit and Defined Contribution. This is the type of plan that many governmental plans are now considering for new hires. About the same time the City made this move, the federal government made a similar move for federal employees. The Civil Service Retirement System provided benefits to federal employees through a Defined Benefit Plan only. Effective January 1, 1987 federal employees were covered by a hybrid arrangement that provided a 1.0% to 1.1% accrual from the Defined Benefit Plan (the Federal Employees' Retirement System) and up to a 5% employer match to a Defined Contribution Plan (the Thrift Savings Plan). Certain Federal Law Enforcement earn higher accruals of 1.7% per year.

At the present time, few governments have moved to exclusively Defined Contribution Plans for new hires, but there seems to be more of a trend in that direction.

The City offers its Administrative, Union and FOP employees differing retirement programs. Highlights of these retirement programs are provided on pages four through seven of this report. Cost of living increases are more common in plans where there is no Social Security and the contributions are higher. The City's pension plan has had no COLA increase since January 1, 2008.

The rest of the report is a comparison of the City's retirement program with that of other Maryland jurisdictions. They examined the defined benefit retirement programs of twelve other jurisdictions, including Montgomery County, Baltimore City, and the State of Maryland. The analysis of retirement plans is separated for Administrative employees and Law Enforcement employees on pages 25 through 39.

The City has also requested that the Hay Group provide alternative retirement program designs that the City consider for both Administrative employees and Police employees. The three alternative presented on pages twenty-six through thirty-five are designed to reduce the City's retirement program cost, reduce the cash and expense volatility, reduce the City's exposure to investment market volatility, strike a reasonable balance between the City's interests and the goal of providing City employees with a solid base of retirement income that in conjunction with Social Security and other personal savings would allow a hypothetical career City employee to enjoy a reasonable standard of living retirement when compared with the compensation provided to that employee.

The Hay Group provided the alternative designs for the City to consider, realizing that there are an infinite number of variations on these three basic approaches. The Hay Group present these base alternatives to assist the City in evaluating which approach is most compatible with the City's resources and total compensation policy. The Hay Group would anticipate that following an initial discussion of this Report and these alternatives, they would provide the City with additional alternatives that are consistent with the City's policies and goals.

After much discussion the Board preferred not to offer any opinion or recommendations to the Mayor and Council with this item.

VI. RFP for Investment Consulting Services:

Mr. Cohen gave a brief history. He said that Segal Advisors will have been with the Board for seven years when the contract ends. It is time to put out an RFP for Investment Consulting Services. When there was the Benefit Index snafu, instead of terminating Segal, Segal assigned a new person to replace George Kiriakos. Mr. Cohen asked if the Board had a problem with Segal participating in the RFP process. Mr. Rodgers felt they would compete very well. Mr. Cohen asked for volunteers for sub-committee to interview finalists. Mr. Rodgers and Mr. Hazlett volunteered for sub-committee to conduct interviews with finalists and make recommendations to the Board.

VII. Future Agendas:

The Board decided the following items will be on the future agenda:

- Ethics Policy/M&C new ethics standards when adopted (Staff)
- City Code changes related to responsibilities of the Retirement Board (JR)
- Board Liability Coverage (JR)
- Award of Investment Consultant RFP (Staff)
- Pension Funding Policy (Staff)
- Pension Plan Amendments-Death Benefits: Part Time Employees (Staff)
- Asset Allocation

Ms. McCombs made a motion to adjourn. Mr. Hazlett seconded it. All were in favor.

The meeting adjourned at 1:30.